

City of Atlanta



Five Year Financial Plan

October 14, 2009

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Five Year Plan – Letter from the Mayor



CITY OF ATLANTA

SHIRLEY FRANKLIN

55 TRINITY AVE, S.W
ATLANTA, GEORGIA 30335-0300

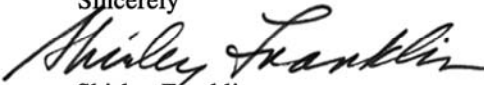
October 12, 2009

It is my pleasure to transmit to you this Five Year Financial Plan for the City of Atlanta. The fundamentals of the City are strong. We are the second-fastest growing City in the country. Hartsfield Jackson Atlanta International Airport is the busiest in the world. With the Georgia Aquarium, Woodruff Arts Center and World of Coke – combined with the soon-to-be built Center for Civil and Human Rights and College Football Hall of Fame – Atlanta is developing a critical mass of attractive destinations that should elevate our position in the tourism and convention industry. The City has one of the strongest concentrations of higher education institutions in the country. Atlanta is home to a diversified set of Fortune 500 companies and we were recently ranked by Entrepreneur.com as a Top 10 city in the country in which to start a business. Crime is down to historic lows, and our neighborhoods are flourishing. Atlanta is a great place to live, work, and visit.

The objective of this plan is to provide the City Council and the next administration with an understanding of the City's medium-term financial condition and challenges. The bottom line is that the City can continue to provide its present level of service assuming that the economy improves in line with current forecasts. However, based on current projections and absent a significant new source of revenue, we will not be in a position to enhance service levels nor address several core priorities – such as replacing our fleet and making much-needed investments in our roads, bridges and sidewalks.

The City has made considerable progress in calibrating our expenses to the revenues we can reasonably expect to collect. Despite revenues that have declined in real terms over the past eight years, we have been able to absorb a 25% increase in our population and continue to provide core services. In other words, we are delivering services to an additional 110,000 residents (and hundreds of thousands of daytime visitors) with the same resources we had eight years ago. We have been able to meet this challenge through our efforts to re-organize and improve the efficiency of local government –our workforce has been reduced by 30% - but the City cannot save its way to prosperity. Ultimately, the City will need to find new revenues to support the investments it needs to make.

The Five Year Financial Plan explains and illuminates these challenges. It can serve as a blueprint for anyone interested in the future of the City and in its capacity to provide municipal services to its growing population. Atlanta is a great city, and the fact that people and businesses are flocking here is clear evidence of our strengths. The job of the next generation of political and business leadership in the City is to harness those strengths so that what we have collectively created – an ethical, efficient, and transparent local government – continues to move in the right direction

Sincerely

Shirley Franklin

Letter from the CFO



CITY OF ATLANTA

55 TRINITY AVE, S.W
ATLANTA, GEORGIA 30335-0300

The Honorable Lisa Borders
Members of City Council
Atlanta City Council
55 Trinity Avenue, S.W.
Atlanta, Ga. 30303

Dear President Borders and Members of City Council:

Attached is the Five Year Financial Plan for the City of Atlanta. This fulfills the requirements set forth in City Ordinance 09-0-1406. More important, it lays out the City's financial trajectory and recommends key actions to improve its path and financial stability.

The bottom line is progress can and should occur on the financial stabilization priorities over the next five years. However, progress will not occur overnight and will take continued fiscal discipline. Improving the City's financial position is a long-term strategy requiring proactive decisions and actions over multiple years.

The good news is progress on key financial stabilization priorities is being made currently and is modeled into this plan. For example, the baseline financial plan shows how the balance can be grown to \$57 million by the close of fiscal year 2014. This is the City's "rainy day fund" used to help cover emergencies. Increasing its balance can help the City be ready for unforeseen needs. It also is a key measure that external bond rating agencies review and a factor in the City's credit worthiness. In this manner, the City's progress on

financial stability priorities can improve fiscal discipline while expanding City access to capital and reducing its financing costs.

The concerning news is that the baseline financial plan shows slow revenue growth and a continued increase in pension and healthcare costs. Despite Citywide cost reductions of 30% over the past two years, there continues to be a structural imbalance between the City's baseline revenues and costs. Initial projections show a deficit situation in each of the next four years. For initial planning purposes, these deficits are eliminated annually by using a portion of funds from the annual restricted reserve (5% of revenues). For example, in fiscal year 2011, initial projections indicate a deficit of \$15.9 million, which is funded from the 2011 restricted reserve of \$27.3 million. A critical note is this does not include any new City services or costs, such as new investments in public safety. It only provides the current services being delivered as of July 1, 2009.

Current and future leaders of the City should pay attention to these projections. The forecasts mean that the opportunity for increasing City services/costs over the next five years is severely limited without a corresponding new revenue source. Can costs be cut further within the City? Like any organization, there is always room for further improvement. However, we are likely reaching the threshold where further significant cost cutting severely impacts service delivery. In fact, peer City benchmarking conducted by Bain & Company shows that we have moved from the last quartile of efficiency and have become a leader in efficiency over the past eight years.

To stabilize its finances, the City should continue to keep its expenses tightly managed while moving rapidly on new revenue opportunities. These include renegotiating the local option sales tax. Facts show that Atlanta is not getting its fair share of sales tax based on the City's significant retail base and population growth in the last 10 years. Conservatively, a change in the sales tax allocation alone can bring \$18-\$20 million a year to Atlanta. This change will require renegotiating the City's percentage share on a more equitable basis with Fulton County and the County cities to reflect the City's strong retail presence.

The attached financial plan also includes a number of planning scenarios. These items are above and beyond the current service projections included in the baseline plan. These scenarios represent incremental cost or revenue estimates. They serve as "what-if" planning scenarios that cover key requirements that are in addition to the FY10 budget and current services.

Though these costs are not directly included in the baseline plan, some of these items are essential. An example is replacement of the City's vehicle fleet and core infrastructure, including streets, bridges, sidewalks, and traffic signals. The City has not had funds to do significant replacement in recent years. The City has only had funds for reactive maintenance. Without action over time, repair will no longer be possible, which will impair City services and the use of these important assets.

The residents of Atlanta alone should not have to pay for the City's entire infrastructure needs. U.S. Census studies have shown that Atlanta's population surges 62% in the daytime due to commuters. The City residents must fund core services to a commuter population. These individuals benefit from Atlanta's infrastructure without fully paying for it. This is a critical element to understand as it adds to the City's structural financial challenges. Some form of tax restructuring or increased state or federal assistance is necessary to deal with this imbalance.

Financial stabilization will require relentless fiscal discipline. A well-aligned portfolio of revenue growth and expense reduction initiatives should be pursued to make the City structurally sound. My summary recommendations are to:

1. Continue to thoroughly plan for City costs and revenues to avoid surprises. Conduct cost benefit analysis on new initiatives or projects prior to making commitments.
2. Continue to question every dollar of expense as to its benefit.
3. Accumulate restricted reserves to build a strong general fund and correct other fund deficit positions.
4. Capture property tax growth by not rolling back the millage rate. Take action on new revenue opportunities. The City must become a healthy growing entity.
5. Pursue revenue expansion at the state and federal level. Currently, the City's General Fund receives less than 1% in state support. However, the average support to cities across all U.S. States is 15% (2006 U.S. Census Bureau Annual Survey of Governments, Bain & Company). In addition, many revenue rates are governed by the State of Georgia, which effectively limits the City's ability to increase revenues. Recent legislation has further constrained the City, i.e., SB 233 freeze on tax reassessments until FY 2013. In order to provide key services, revenues must be structured to keep pace with population growth and inflation.
6. Invest in the City's employees. To recruit and retain talented employees, the City must have competitive pay, professional development, and a structure that rewards results.

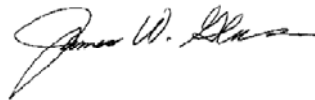
7. Continue to review and improve the City's focus. Significant time and resources are spent on paper-intensive, transaction processing. More time and effort should be committed to automation, higher value work, and improving service delivery.

As is common with long-term planning efforts in public and private industry, the resulting forecast should be viewed as directional in nature. We received input from external and City subject matter experts to develop the financial projections included. For example, we worked with the lead economist from the University of Georgia to develop realistic revenue assumptions and forecasts.

This plan is a snapshot in time based on the information available during the development of the report. Please keep in mind it is a living document subject to change.

I strongly suggest that the City continue to have a comprehensive multi-year, financial planning process each year. It promotes a focus on the long-term health of the City, allowing the City to better predict financial challenges and persevere through the unexpected.

Sincerely,



James W. Glass
Chief Financial Officer

Executive Summary

This Five Year Plan forecasts revenues through FY14 based on conservative economic assumptions (a slow recovery from the current recession with only historical-based growth thereafter) and projects expenses over the same period based on the level of City services in place today.

On the positive side, the most important takeaway from this analysis is that the current level of City operations is sustainable for the next five years. Indeed, a number of significant positive outcomes are projected:

- The City produces annual surpluses each of the five years, ranging from a high of \$27 million in FY10 to a low of \$3 million in FY14.
- The baseline analysis includes a small number of expanded activities, including the maintenance of new BeltLine parks that will be brought on line in the next five years; scheduled upgrades for the ERP system; and public safety radio system maintenance costs.
- The General Fund's fund balance increases to \$57 million at the end of FY14.
- For the first time in recent years, the City will build both a "rainy day" fund (also called a "catastrophic reserve" in the enabling legislation) and a capital reserve fund.
 - The "rainy day" fund contributions for FY10 – FY14 will total \$51 million.
 - The capital reserve fund contributions for FY10 – FY14 will total \$17 million.
- The amounts currently payable to the Department of Watershed Management through the Memoranda of Understanding will be reduced by half and will be on schedule for payment in full in accordance with the terms of the borrowing agreements.
- The next five years will present an opportunity to generate an additional \$30 million per year towards the City's budget through a combination of cost cutting and added revenue.
 - The sale of the City jail would generate \$10 million per year in savings.
 - Based on the existing population-based revenue sharing methodology, the City is estimated to add \$20 million per year in sales tax collections once Fulton County's sales tax agreement is renegotiated in FY12.

In summary, the five year plan analysis shows that the City can continue to fund current services, substantially improve its balance sheet and build long-term reserves. In addition, the report identifies \$30 million annually in "new money" that through proactive cost-cutting and increased sales tax revenue.

At the same time, the Plan highlights a number of key financial and operational challenges that the City will have to address:

- Absent a new revenue sharing agreement that increases the City's proportion of county-based sales tax collections, overall revenues will grow marginally at best (only 1.4% per year).
- The City's annual budgeted reserves are steadily depleted through increasing expense costs each year. Although FY15 is not projected, it is likely that such reserves would not be able to cover baseline expenses beginning in FY15.
- The baseline projections do not allow for any salary increases or performance-based pay adjustments during the five years. Allowing for a 2.5% COLA each of the next five years would add \$29 million to the FY14 budget.
- The baseline projections do not provide for new investments in vehicles and equipment. Since more than 50% of the City's existing rolling stock is past its effective life cycle, new investments must be made during the next five years. Average annual investments of \$22 million per year are needed to update the City's fleet.
- The baseline projections do not provide for a reduction in the amortization period for the City's pension funds. If the City were to reduce its amortization period from 30 years to 25 years, annual pension costs would increase \$10 million by FY14 to reduce its unfunded liability.
- Total costs to reflect annual COLA's, recommended fleet investments and lowering the pension fund amortization period would add \$63 million per year by FY14.
- Outside of the sale of the City jail, there are very limited cost saving opportunities as the City already has reduced its work force by 30% since 2001.
- The baseline projections do not add new public safety personnel.
- Atlanta, like every other major city in America, faces a major issue with deteriorating public infrastructure (roads, bridges, traffic lights and the like). The City has an estimated \$3 billion in public infrastructure needs over the next 25 years. This will be one of the long-term significant issues facing Atlanta and the country over the coming decades. The five year plan identifies alternative ways to finance the infrastructure needs through bonds. However to pay the debt the City may need a combination of a referendum, state and federal funding.

The five year planning process was initiated in 2009 to improve understanding of the City's projected financial position over multiple years and to identify key actions to improve its financial performance. This promotes a focus on the long-term health of the City, allowing it to better predict financial challenges and address them proactively.

Five Year Plan – Purpose and Organization

Purpose

The City's introduction of a five year planning process allows the city to identify future revenue and expense trends and proactively identify ways to improve financial viability. A five year plan is a critical forecasting tool for the City. The refinement of assumptions, historical trends and policy decisions will have a direct impact on the City's ability to address volatile economic conditions.

Enabling Legislation

Ordinance 09-0-1406 was adopted on September 21, 2009, and it codifies the requirement to complete a five year stabilization plan that is updated annually. The Ordinance directs the City to consider and present specific financial issues that are critical to the City's financial future by October 15 of each year. It further requires that in subsequent years, the City Council will formally adopt a plan by the 3rd Monday in January. (See Appendix 1 for Legislation)

In addition to a projection of baseline revenues and expenses, 09-0-1406 specifically states that the 2009 plan shall quantify and analyze the following objectives:

1. Eliminating any deficits in funds supported by the General Fund and pay off the Memorandums of Understanding of borrowing from the cash pool.
2. Identify funds to pay for additional Police Officers that are grant funded through FY13.
3. Examine options to reduce the amortization period of Unfunded Actuarial Accrued Liability for all three pension plans.
4. Identification of a funding source to replace the City's fleet.
5. Reinstate cost of living increases for employee retention.
6. Identify a funding source to repay any State or Federal grant obligations.
7. Establish a General Fund fund balance of \$100 Million (rainy day fund).
8. Establish bond issues to fund long term infrastructure needs of the City.

Five Year Plan – Revenues

In this section, a projection of overall revenues for each of the next five fiscal years, as well as a detailed projection of property tax and sales tax collections is discussed. The City collaborated with Dr. Jeffrey M. Humphreys, Director, Selig Center for Economic Growth, Terry College of Business, University of Georgia to develop the economic outlook.

Economic Trends & Outlook

The City of Atlanta has been significantly affected by the recession and it has adversely impacted economically sensitive revenues. Appendix 2 provides a detailed analysis of the Selig Center economic assumptions that have been incorporated in the City's revenue forecast. Key highlights from Dr. Humphreys' economic analysis include the following:

- “Deep recessions often promote V-shaped recoveries, but this time it will be different because tight credit and unprecedented wealth destruction will restrain growth of consumer spending and will delay hiring thereby slowing the recovery and limiting the ability of local governments to finance services.”
- “Consumer spending will grow very slowly (potentially for several years), limiting the push to sales and use tax collections.”
- “With the exception of the inventory cycle, B-to-B (business to business) activity will lag the recovery in consumer spending by one or two quarters, which could be a problem for the City of Atlanta to the extent that it is more dependent on B-to-B spending than the state as a whole.”
- “Home price declines will persist through early FY10, eroding the residential property tax base as well as creating difficulties in collections. “
- “Beyond housing, a deepening recession in nonresidential construction will limit the growth of property tax digests in this fiscal year and the next fiscal year. “
- “Although higher inflation is a definite long-term possibility, the primary near-term outlook calls for very modest inflation, which will restrain revenue collections in both FY10 and FY11. “

What does this mean? The recovery will be slow and the rebound of revenues will be incremental. The current revenue trends have been flat or declining due to the recession.

This economic forecast has been used as the basis for the City of Atlanta revenue growth assumptions presented in this report. However, the historical trends indicate that the economic downturn is not the only reason for concern.

Historical Revenue Trend

The City's population has grown by 25% this decade. However, the City has had relatively flat revenues during this time except for the period of 2005-2007 when one-time revenues such as building construction increased. The primary reason for this is that underlying tax and fees from rates have not kept appropriate pace with population growth. The chart below graphically depicts the historical revenue trends from both an actual and inflation-adjusted perspective.

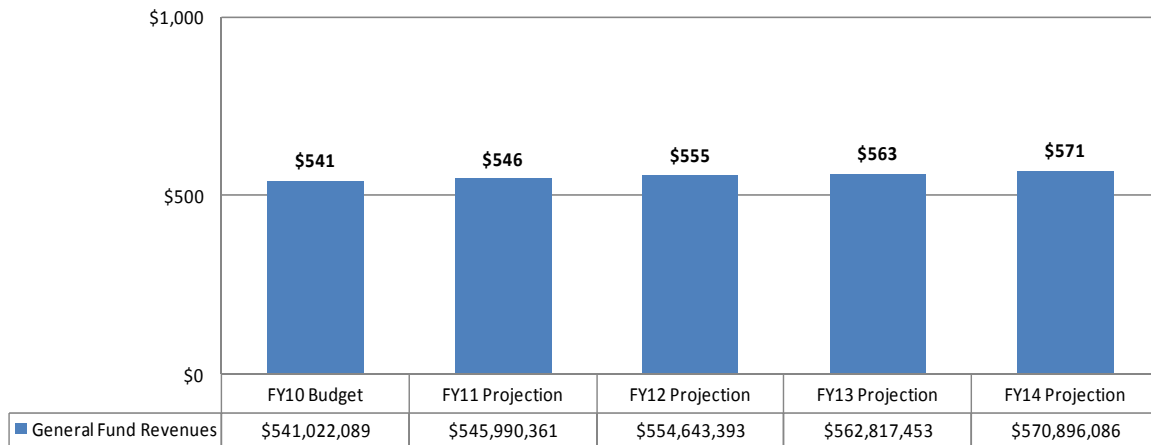
As the dotted line on the chart illustrates, even in times of economic prosperity the City's revenues do not increase significantly. When the impact of inflation is taken into account, the slightly increasing trend of revenues becomes almost completely flat. For example, revenues of \$424 million in 2002 are equivalent to \$501 million when adjusted for inflation to 2009 dollars. A full seven years later, the City expects to collect \$510 million in revenues in FY09 (a negligible growth rate of just 1.8%).

Limited growth of revenues in real dollars is the most significant financial constraint on the City going forward. Any healthy organization must increase revenues as the demand for its services grows. The City must find a way to increase its ongoing revenue streams.

Revenue Projections FY10 – FY14

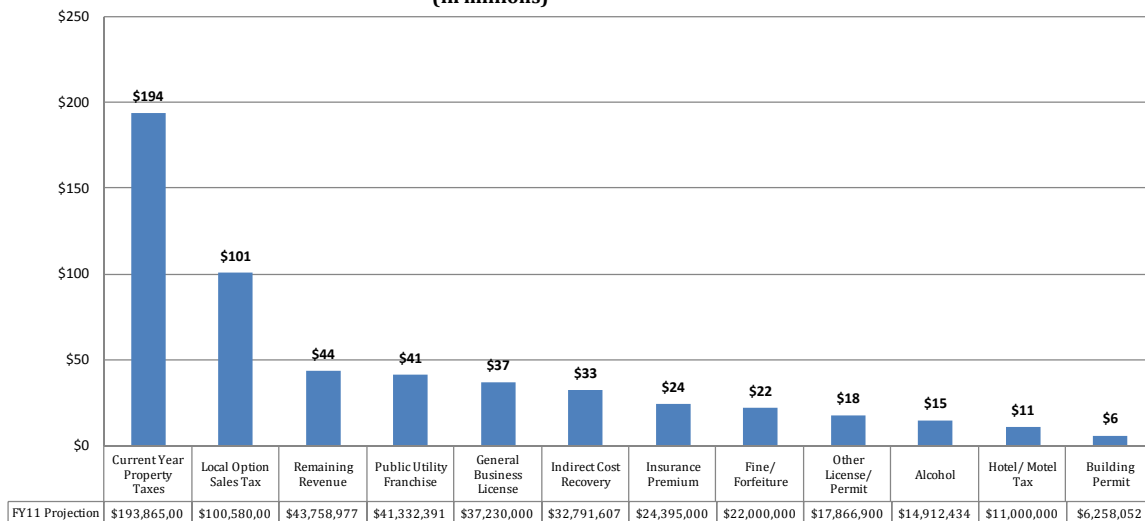
The City’s projection of revenues as presented below reflects overall five year growth of 5.5%. This translates into an annual growth rate of 1.4%. Notably, revenues are projected to increase only \$5 million from FY10 to FY11, a reflection of the continued recession. As we recover from the recession (FY12 – FY14), revenues grow at a slightly higher rate (2.8%). The major revenue sources will be presented below with a brief description of the item and the assumption for the planning years.

**General Fund Revenue FY10 - FY14 Projections
(in millions)**



The specific revenue sources are detailed in the chart below. It is noteworthy that property tax and sales tax collections generate over 50% of the City’s revenue.

**General Fund Revenue FY11 Projection
(in millions)**



Property Tax

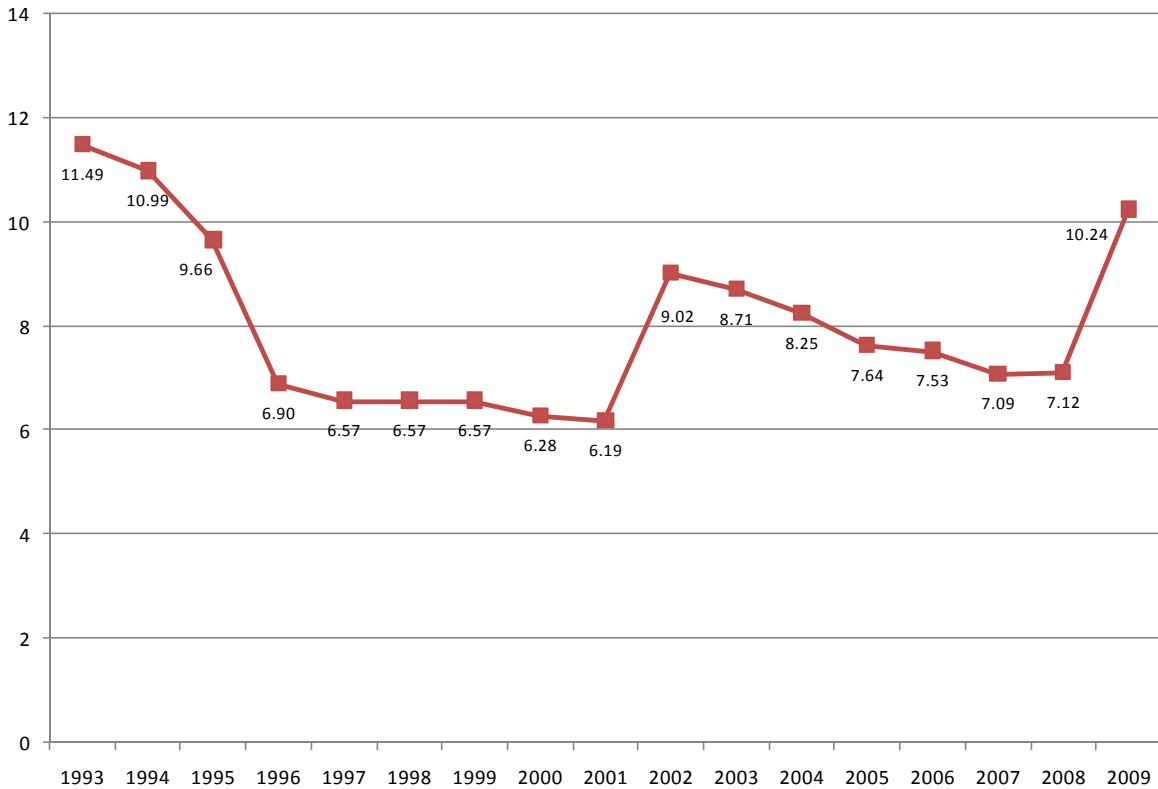
Property tax is normally considered one of the most stable local revenue sources for state and local governments. It funds essential public service delivery requirements. However, since the current U.S. and global recession was precipitated by the securitization of residential sub-prime loans and exacerbated by a significant increase in housing foreclosures and decreased property values, this has resulted in a weak outlook for the property tax base.

Current year property tax is levied on real estate and personal property within the corporate limits of the City. Property tax revenues are derived from the millage rate and the tax digest. Property tax revenues are used to support three governmental funds for the City 1) General Fund operations and maintenance, 2) bonded indebtedness, and 3) park improvements.

Historical Trend-Millage Rate

As indicated in the chart that follows, since 1993 the City has rolled back its millage rate due to property tax reassessments and other considerations with the exception of two years. The tax policy of rolling back the millage rate for reassessment growth has resulted in a significant loss of property tax revenues. Between 2002 and 2008, the City has lost a cumulative \$38 million in foregone property tax revenue due to rolling back the millage rate. Tax rollbacks do not allow the City to capture growth occurring in the tax base annually. The result is that over the past seven years, the City service delivery requirements outpaced the available tax revenue sources. In FY10, a 3.12 millage rate increase was approved to address the foregone tax revenue loss attributed to a policy of rolling back taxes.

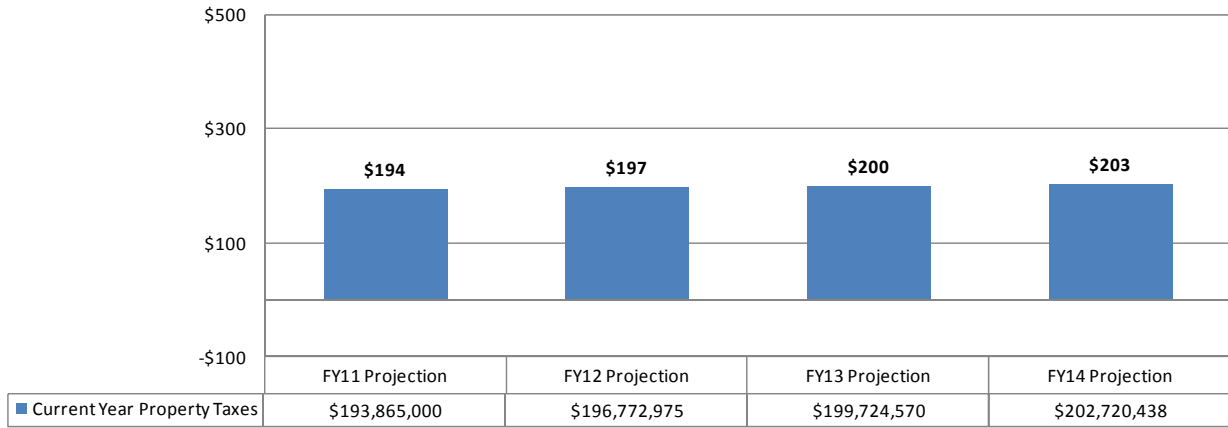
City General Fund Millage Rate History



Assumptions

The five year projection for property tax shows a total increase of \$9 million from FY11 through FY14, which represents a total growth of just 4.6%. This assumes a 1.5% annual growth in new construction. Senate Bill (SB) 33 that passed in the 2009 General Assembly session provides for a moratorium on increases in the assessed values of property effective through January 2011. This effectively freezes the City’s reassessment until FY13. SB 55 that also passed in 2009 requires county tax assessors to consider foreclosure sales, bank sales and distressed sales in considering the fair market value of real property. This State legislation coupled with the current economic forecast for the nonresidential real estate market will continue to curtail property tax revenue growth.

**Property Tax FY11 - FY14 Projections
(in millions)**



Local Option Sales Tax (LOST)

Sales tax is one of the most economically sensitive revenue sources with a close correlation to employment and use of disposable income. Only a portion of the 1% local option sales and use tax levied on the sales of goods and services within Fulton County, only a portion of 1% has an impact on the City’s General Fund (see chart below). The 1% local option sales tax is shared between the county and its municipalities on a pre-defined formula. The City’s share under the current formula (based on the 2000 Census population) is 42.87%. The City’s share of the 1% tax is up for recalculation in 2012 following the 2010 Census. The opportunity to collect a higher percentage of the county-imposed sales tax will be discussed later.

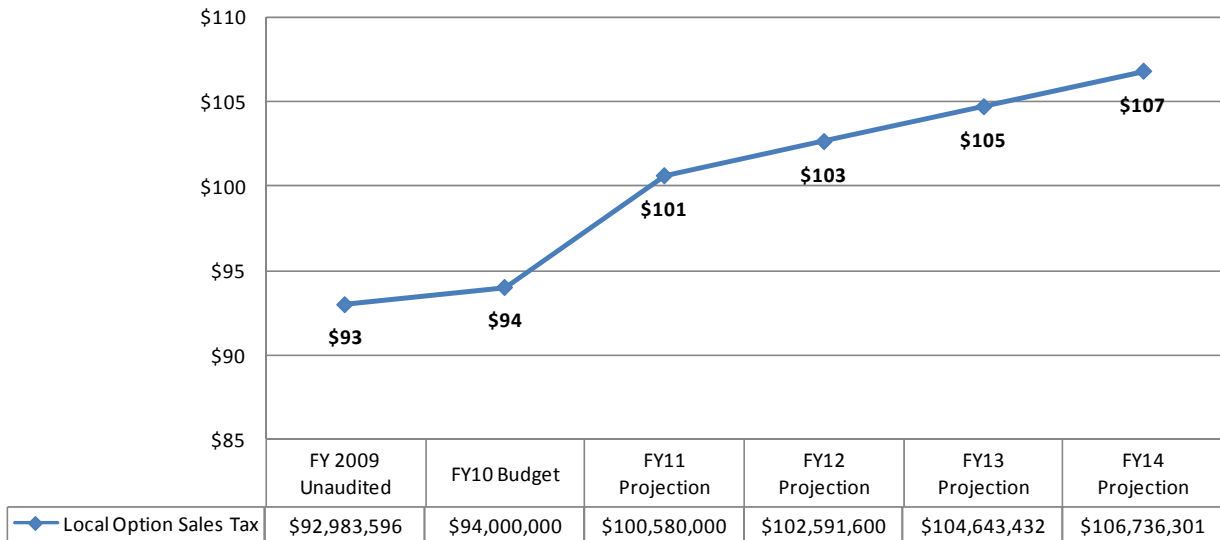
The Georgia Department of Revenue remits sales tax receipts to the City on a monthly basis with a two-month lag from the period of economic activity. The components of the City sales tax are indicated below:

Sales Tax	Percent
State	4%
Local Option Sales Tax	1% (<i>City General Fund Receives 42.87% of Total to Fulton County</i>)
School Special Sales Tax	1%
Water Special Sales Tax	1%
MARTA	1%
Total Sales Tax	8%

The local option sales tax of \$94 million (FY10 forecast) is the second largest source of General Fund income historically accounting for 20% of total revenue.

The five year forecast presents a trend for sales tax. The line graph reflects an increasing trend consistent with historical collection growth rates. This resumption in sales tax collections reflects the economic recovery and resultant consumer spending. The forecast does not factor any change in the City's current percentage allocation.

**Local Option Sales Tax FY11 - FY14 Projections
(in millions)**



Assumptions

The projection of sales tax collections detailed above shows a rebound in FY11 due to the beginning of the economic recovery and an increase in consumer spending. The assumption is a 7% growth (Selig Center Economic Report) in FY11, with the growth tapering off to 2% annually from FY12 through FY14.

Hotel/Motel Tax

The hotel/motel tax is levied and assessed at the rate of 7% on the rent for occupancy of a guestroom in a hotel in the City. The tax is shared between the City, Atlanta Conventions Visitors Bureau, Georgia World Congress, and the Georgia Dome. The City's share of the hotel/motel tax is 28.56%, with the remaining 71.44% distributed by the City to the aforementioned entities. This tax is collected on the 20th day of every month by the City. In FY11, this amount is projected to be \$11 million.

Assumptions

Hotel/motel revenue is expected to grow at 1.5% annually based on an increase in demand as the recovery begins to impact occupancy levels and business travel.

Public Utility Franchise Fee

This category includes franchisee fee assessments for electric, gas, cable and telecommunication companies. Georgia Power remits an annual payment in January of each year and their fee is based on 5% of gross receipts. Georgia Power accounts for two-thirds of all franchise payments. In FY11, this amount is projected to be \$41.3 million. The telecommunication companies remit payments on a quarterly basis at the rate of 3% of gross receipts. In December 2009, the City projects only to receive local recurring gross receipts from telecommunication companies resulting from a change in state law.

Assumptions

Assumes an annual growth of 1.5% as forecasted.

Indirect Costs

The City allocates a portion of general services costs such as purchasing, accounting, budgeting, personnel administration, and certain other costs based on allocation methods determined by an independent cost allocation study. In FY11, this amount is projected to be \$33 million.

Assumptions

The forecast is flat as this source of income is primarily internal in nature.

General Business Tax

The general business tax is levied on all entities conducting business in the City. The business tax is computed on two separate criteria 1) Estimated Gross Revenue and 2) Number of Employees. The estimated gross revenue amount filed in the prior year is adjusted by the Actual Gross amount when filing for the next year's business tax. There are seven tax classes delineated by industry type. The business tax also referred to as the occupational tax is closely tied to corporate sales and employment levels. As a result, growth is expected to be stagnant due to the U.S. recession and resultant reduction in corporate gross receipts and increased bankruptcies. In FY11, this amount is projected to be \$37 million.

Assumptions

The forecast is 1.6% on average annually that reflects a slight increase in gross receipts and the employment base.

Insurance Premium Tax

The insurance premium tax is levied to every insurance company, domestic, or foreign operating within the State of Georgia. Each insurance company is assessed a tax at the rate of 2.25% on the gross direct premiums. The premium tax is remitted to the Georgia Department of Insurance. The City's share is based on the population of the City relative to all incorporated cities and the State population. The City receives an annual payment each October that represents the previous calendar year's premium collections activity. In FY11, this amount is projected to be \$24 million.

Assumptions

The forecast is 2.5% on average and is based on Atlanta population trends. Generally, the insurance premium tax is less susceptible to shifts in the economy than other corporate income derived taxes.

Building Permits

Building permit fees are one of the most economically sensitive revenue sources closely tied to the real estate and construction sectors. Building permits are currently assessed at the rate of \$5.00 per \$1,000 of total construction value with a minimum fee of \$50. However, no fee is required for repair work less than \$2,500. Pursuant to City Ordinance, a building permit is required to construct, erect, demolish, alter or repair any building, structure, equipment, appliance or system. Building permit revenue has declined significantly through the current recession. In FY11, this amount is projected to be \$6 million.

Assumptions

The forecast assumes a rebound in this revenue source with a forecasted 6.5% increase in FY11. This revenue type is strongly correlated to both the residential and commercial construction sectors that are experts expect to continue to recover.

Alcohol Taxes

Alcohol taxes are levied on wholesale distributors at the rate of .22 cents per liter. A 3% tax-by-the-drink is assessed on patrons of eating and drinking alcohol establishments within the City limits. The alcohol taxes category has remained relatively stable through the current recession. In FY11, this amount is projected to be \$15 million.

Assumptions

The forecast is flat as this revenue category has exhibited resilience through the current recession and the five year forecast reflects this trend.

Fines/Forfeitures

Fines and forfeitures are comprised primarily of parking and traffic fines and forfeitures. Fines and forfeitures are administered through the City Municipal Court. In FY11, this amount is projected to be \$22 million.

Assumptions

The FY10 budget included an increase in this revenue category related to Atlanta Police Department citations.

Remaining Revenues

The remaining revenue categories category includes all other sources, such as prior year taxes, motor vehicle taxes, public utilities taxes, other charges for services, and operating transfers. In FY11, this amount is projected to be \$44 million.

Overall Five Year Forecast

As a baseline revenue forecast, the assumptions are conservative and realistic based on currently available information. The five year revenue forecast shows some increases based on economic analysis and historic trends. This forecast could change radically if there is further instability in the U. S. and International markets.

Five Year Plan – Expenses

Expense Trends & Outlook

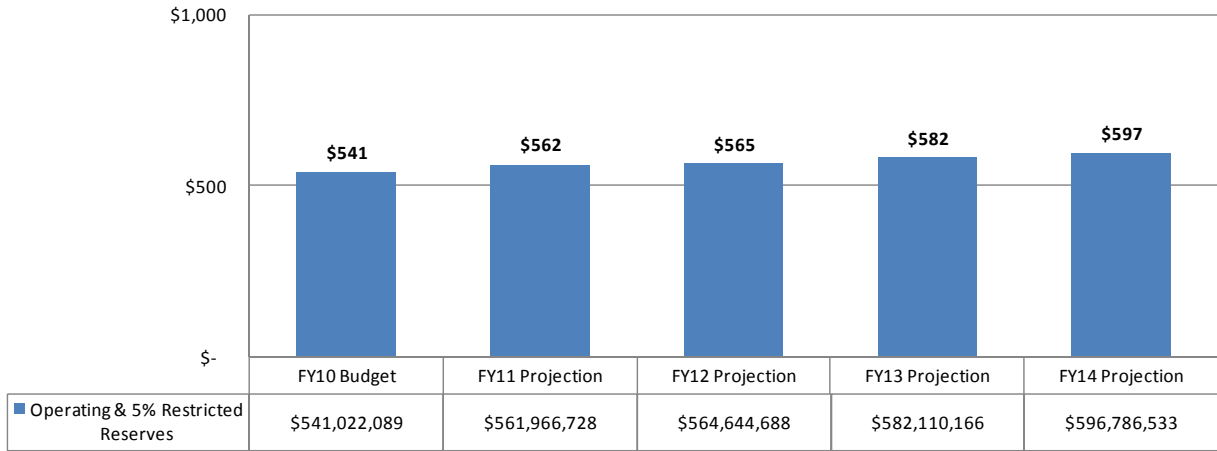
From FY02 – FY07, the City has improved efficiency, made investments in public safety, and has added programs. However, as the city began to experience the recession in 2008, many services had to be reduced, reorganized and eliminated. The FY10 budget is \$541 million and it reflects annualized reductions in staffing and service levels.

As mandated in 09-O-1406, in the five year plan FY10 spending becomes the “current services budget”, which then serves as the “baseline” for the subsequent years. Thus, spending projections for FY11 through FY14 are simply a continuation of the current FY10 budget (meaning all years have the same number of employees, the same salary levels, the same level of services, and the like) with just a few specific exceptions. The additions to the baseline are as follows:

- Inflation of 3% increases operating expenses beginning in FY12.
- FY13 – FY14, includes 50 additional police officers that are currently funded under the federal COPS grant.
- FY11 – FY14, includes 23 additional police officers that are currently funded under the federal JAG grant.
- Fleet Repair and maintenance increases at 19% each year due to an aging fleet . No replacement is provided in the baseline, it is presented in the planning scenarios.
- FY13 and FY14 funds upgrades to the City’s ERP system.
- FY11 – FY14 funds operating and maintenance for BeltLine parks.
- FY11 – FY14 funds maintenance for the new public safety radio system.

The chart on the next page shows that overall expenses over the five year period increases from \$541 million to \$597 million, representing a total a growth rate of 10.4%. The average annual growth rate is 2.6%.

**General Fund Baseline Expenses FY10 - FY14 Projections
(in millions)**



This projection does not include items that will also need funding such as infrastructure, fleet, information technology investment and other critical line items. In addition, there are no provisions for new staff to increase or enhancements to high priority areas such as public safety. These items are not forecasted in the baseline expense projections but many of the future needs have been identified. These items will require decisions in the near term and are presented in the planning scenarios that identify issues with significant fiscal impact.

A further itemization of the expenses in the chart on the next page, shows that 75% of the costs are attributable to Public Safety and Non-Departmental costs that include debt service and other required obligations that must be funded irrespective of the number of staff employed. All other activities of the City government such as public works, parks, code enforcement, planning, technology, and the support departments are funded with the remaining 25%.

Projections for Major Expenses & Assumptions for FY11

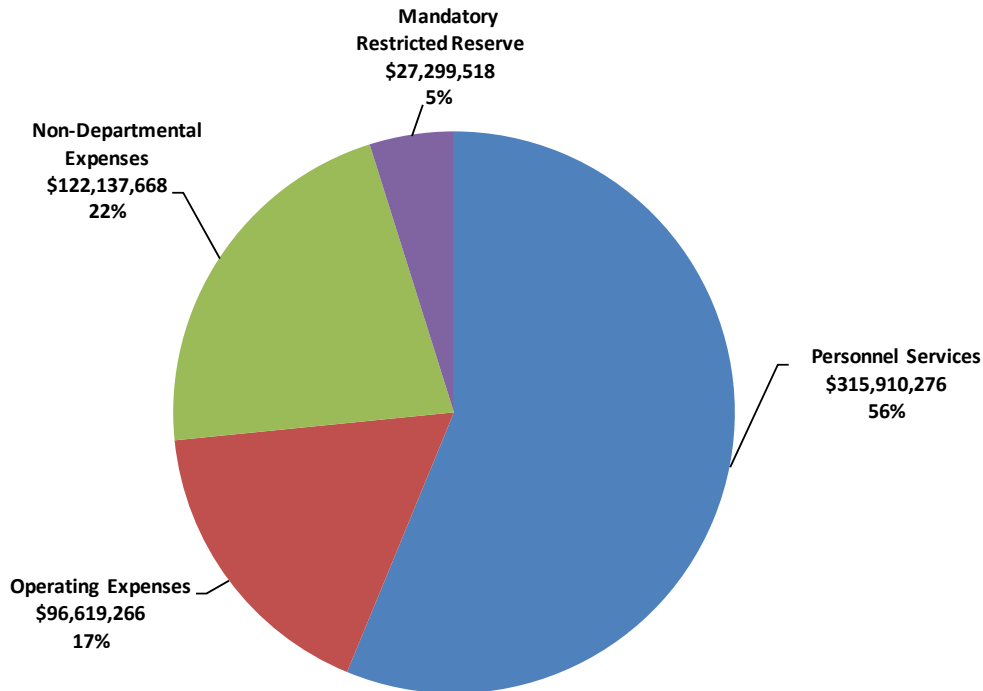
Public Safety Departments	\$269,057,232	48%
Non-Departmental Budget	\$149,749,857	27%
All Other Departments	\$143,472,309	25%
FY 2011 Projected Expenses	\$ 562,279,398	

NOTES:

Public Safety Departments (*Corrections, Fire, Police, Courts, Public Defender and Solicitor*)

To further understand the City's expense trends, the following pie chart shows the distribution of expenses among the major categories that include Personnel Services, Operating Expenses, Non-Departmental and the City's 5% Mandatory Restricted Reserve.

General Fund Baseline Expense FY11 Projection



Personnel Services

In FY11, the City's expenses comprise 56% personnel expenses that include salary and benefits. The cost drivers in this forecast are the number of personnel, pension, and health benefits. Since 2001, the city has reduced its workforce by 30%. However, the benefit obligations have continued to rise. It is important to note that public safety represents 72% of the personnel costs.

Pension

The five year plan forecasts the annual increase in pension expense based on the actuarial tables under the current amortization. It is forecasted at \$69 million in FY10 and increases to \$85 million by fiscal year FY14 for the General Fund. The City re-amortized its pension plans in FY10 to utilize a rolling 30-year period that reduced this obligation by \$25 million.

Health Insurance

The City's health insurance is directly impacted by the national economy and regional cost for benefits. The five year forecast anticipates a 10% increase in cost that is compounded annually.

Forty-four percent of the personnel costs are attributed to benefits. As employees retire, these expenses will increase. New employees have a higher level of mobility, however, the state mandated pensions will continue to have a significant impact on costs especially for public safety departments where there is a higher risk in the execution of their duties.

Non-Personnel Baseline Expenses

Several non-personnel baseline expenses increase annually. These items will be required to operate city government and include fleet services fuel, repair & maintenance, infrastructure repair and maintenance, and gas, water and electric utilities. Historically, these costs will increase based on the age of the City's fleet and infrastructure. There are significant operating cost increases as equipment and infrastructure age and are not replaced.

Utilities

The City has water, natural gas, and electricity that are required to operate city buildings, structures, and streetlights annually. In addition, a significant amount of fuel is needed to operate its fleet of vehicles, equipment and heavy machinery.

Electricity remains one of the City's largest costs. The City has implemented a series of green initiatives to offset utilization of electricity and the City's carbon imprint. These actions have mitigated some of the increase cost in rates and utilization. The City also reviewed all of its rates in conjunction with utilization to optimize efficiency and costs. The City costs have increased with the addition of three new buildings (E-911 and Data Center,

Public Safety Headquarters and the Public Safety Annex). The historical trends and five year forecast assume that utility costs will have a net increase on average of 8% each year.

Fleet Services (Fuel and Repair & Maintenance)

The City projects that fuel costs will increase by 9% each year. Fleet repair and maintenance is projected to increase by 15% each year assuming no vehicle replacement. The repair and maintenance costs will decline if vehicles are replaced.

Non-Departmental Expenses Included In the Baseline

The City has Non-Departmental expenses that fund activities that are not attributable to a specific department. The FY10 budget and five year forecast for Non-Departmental expenses includes the payments for debt service, payments for health benefits such as worker's compensation and retiree health benefits. In addition, it reflects fees, charges, inter-local agreement payments, and city memberships for participation in local, regional, state and national organizations. Non-Departmental expenses also include the City's mandatory budgeted reserves, more fully explained below.

5% Mandatory Reserve

The City is required by State law and city code to budget a 5% restricted reserve each year for emergencies. To utilize this fund, the City Council must take legislative action to re-appropriate the funds.

Under city legislation, at the end of each year any unspent reserves are then transferred to a capital reserve account (25%) and a "rainy day" reserve account (75%). The latter is officially called the "catastrophic reserve" in the legislative code. From an accounting standpoint, the full amount of the unspent reserves shows up as an increase in the fund balance on the City's balance sheet. Ideally, the City would leave untouched its budgeted 5% reserve and also fund a contingency reserve that covers unforeseen expenses on an annual basis. The full amount of the reserves remaining at the end of each fiscal year would bolster fund balances, including its capital reserve account and "rainy day" reserve account.

The table below shows a summary of the City's Non-Departmental account and the categories of expenses.

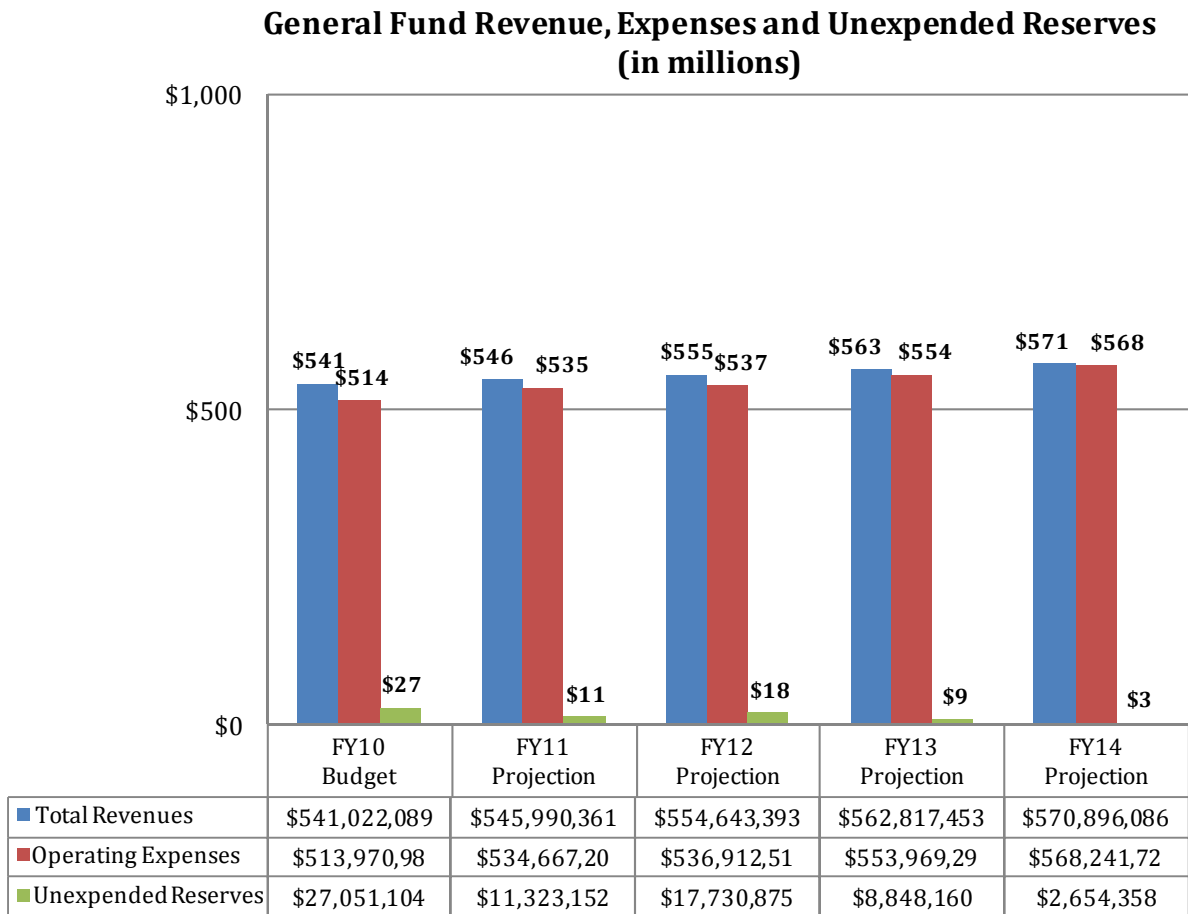
NON-DEPARTMENTAL	FY11 Projection
Worker's Comp, Insurance Expense & Keep Atlanta Beautiful, Unemployment, Records Management & Audit Fees, Tax Anticipation Note & Other Non-Departmental	28,772,157
Annual Group Health Insurance Retiree (OPEB)	16,539,290
MOUs - Watershed (Principal and Int.)	18,035,591
Watershed - Water Bill	5,475,785
Bank Fees, Service Grants, Emergency Management Agency, Payments to Other Government Agencies, Bad Debt Expenses	4,397,864
Debt Service Payments:	
Public Safety Debt Service Payment	3,894,964
Debt Service Payments:	
URFA, Underground, Zoo Atlanta, Municipal Court, GMA Lease Pool & All Other Debt	40,909,825
Election Expense, Transfer to E-911 & Employee Assistance	4,112,192
Non-Departmental (without Reserve)	122,137,668
RESTRICTED RESERVE	27,612,189

Five Year Plan – Analysis

Financial Position

One of the most important takeaways of the five year plan is that in each year projected revenues are greater than expenses, producing an unexpended reserve annually. The unexpended reserve starts high, \$27 million in FY10, and decreases to \$3 million in FY14. The unexpended reserve accumulates to \$57 million over the five year period.

The chart below shows projected revenues, expenses, and unexpended reserves through FY14.



The five year forecast shows a number of strengths:

- The City's current level of operations is sustainable over the next five years, even without new revenue sources assuming economic recovery.
- The City's fund balance, a basic barometer of financial health, increases from \$6 million to \$57 million, an increase of \$51 million, by FY14.
- The City's capital finance fund deficit will decrease by \$17 million.
- The City pays down nearly 50% of its interfund borrowings from the Department of Watershed Management, reducing the balance to \$74 million.
- The City is able to fund 50 additional police officers it has received through the federal COPS stimulus program and the 23 police officers funded through the JAG grant.
- The City is able to make essential upgrades of its ERP system.
- The City is able to maintain the new BeltLine parks.

A detailed look at the five year picture, with specific expense projections, is provided on the next page:

CITY OF ATLANTA
GENERAL FUND REVENUE AND EXPENSES FORECAST
FISCAL YEARS 2010 THROUGH 2014
BASELINE PLANNING SCENARIO

	FY10 Budget	FY11 Projection	FY12 Projection	FY13 Projection	FY14 Projection
Revenues	541,022,089	545,990,361	554,643,393	562,817,453	570,896,086
Operating Expenses	\$ 513,970,985	\$ 534,667,209	\$ 536,912,518	\$ 553,969,293	\$ 568,241,728
Personnel Services	208,386,593	209,540,260	209,540,260	211,536,353	211,536,353
Health Insurance (Employee & Retiree)	41,899,171	46,245,613	50,870,175	56,329,872	61,962,859
Pension (Defined Benefit)	69,141,832	74,810,482	77,954,896	81,684,208	84,941,442
Operating Expenses	61,040,757	61,040,757	62,871,980	64,758,139	66,700,883
Utilities	16,956,152	18,312,644	19,777,656	21,359,868	23,068,658
Fleet Services (Fuel)	3,638,605	3,966,079	4,323,027	4,712,099	5,136,188
Fleet Services (Repair & Maintenance)	7,938,335	9,129,085	10,498,448	12,073,215	13,884,198
Non-Departmental (Other Expenses)	30,566,654	35,748,221	27,395,993	27,895,993	30,665,485
Water Bills (Current)	4,867,364	5,475,785	6,132,879	6,132,879	6,132,879
MOU (Loan Repayment & Old Water Bills)	10,000,000	14,000,000	14,000,000	14,000,000	14,000,000
Interest (MOU & TAN)	7,175,385	5,569,583	5,424,164	5,271,771	5,271,771
Debt Service	52,360,137	44,804,789	40,954,850	37,689,336	33,441,248
Infrastructure-Reactive Repairs	-	3,300,000	3,795,000	4,364,250	5,018,888
Beltline Parks Maintenance	-	964,790	1,614,070	1,902,188	2,221,755
800 Mhz Radio Maintenance Costs		870,700	870,700	870,700	870,700
Corrections, transfer medical staff to GF		888,421	888,421	888,421	888,421
Oracle Upgrade				2,500,000	2,500,000
Mandatory Restricted Reserve (5%)	27,051,104	27,299,518	27,732,170	28,140,873	28,544,804
Total Expenses (Operating & 5% Reserve)	541,022,089	561,966,727	564,644,688	582,110,166	596,786,532
Unexpended Reserves	\$ 27,051,104	\$ 11,323,152	\$ 17,730,875	\$ 8,848,160	\$ 2,654,358
Contribution to Capital Finance Fund	\$6,762,776	\$2,830,788	\$4,432,719	\$2,212,040	\$663,589
Contribution to Rainy Day Fund	\$20,288,328	\$8,492,364	\$13,298,156	\$6,636,120	\$1,990,768
*General Fund Fund Balance	\$26,288,328	\$34,780,692	\$48,078,849	\$54,714,969	\$56,705,737

*NOTE: General Fund fund balance for FY10 assumes a \$6 million carryforward from the audited FY09 financial results.

It is equally important to note, however, what is not included in the five year projections. The forecasts are based on the City's current service level. Despite numerous cuts made in response to the recession, a number of important activities go unfunded in the projection. Most notable are the following:

- No replacement of fleet (vehicles and equipment).
- No employee cost of living adjustments or raises.
- The amortization period for the City's pension funds remains at a rolling 30 years.
- No increases in service levels.
- No new investment in capital infrastructure such as bridges, roads, sidewalks, and traffic lights.
- Baseline financial projections show an increasing reliance on restricted reserves to cover operating expense.

Priorities and Planning Scenarios

Priorities

Ordinance 09-0-1406 requires this plan to analyze and quantify the cost of eight specific financial goals as outlined on the chart below. The financial plan achieves progress on half of the financial stability priorities and includes them in the baseline. The remaining priorities are included in the planning scenarios as shown below.

Priorities	Coverage
1 Elimination of all deficit positions in the funds supported by the General Fund and elimination of the Memorandums of Understanding of borrowing from the cash pool.	Baseline, Planning Scenario
2 Identification of a funding source for additional police officers added in FY 2010 under the COPS program by 2013.	Baseline
3 Examination and reduction of the amortization period of the Unfunded Actuarial Accrued Liability for all three pension plans.	Planning Scenario
4 Identification of a funding source to make lease payments to replace the City's rolling stock.	Planning Scenario
5 Reinstatement of cost of living increases for employees in order to retain quality personnel as the economy improves.	Planning Scenario
6 Identification of a funding source to repay any other obligation the City undertakes associated with Federal or State governments which require such repayments.	Baseline
7 Establishment of a General Fund balance of \$100 million (rainy day fund).	Baseline, Planning Scenario
8 Establishment of future Bond Issues to fund long term infrastructure needs of the City.	Planning Scenario

Key:

Baseline = Progress on the priority is included in the baseline model of financial analysis and projections

Planning Scenario = Progress on the priority is included as additional what-if analysis and projections (supplemental to the baseline financial model)

Priority 1 – Elimination of All Deficit Positions

The baseline financial plan includes progress on eliminating the deficit positions and cash pool borrowing. The baseline financial plan includes a funding source to repay the City's General Fund water obligations per the terms of the memoranda of understanding. General Fund revenues will be the funding source.

While significant progress is made, the initial projections included in the baseline financial model do not show complete correction of all deficit positions in the next five years. It is recommended that fiscal discipline be maintained to correct deficit positions. In some cases, this may take more than five years to accomplish.

Fund positions and projections for E911, Solid Waste, and Underground are covered in a devoted section later in this document.

Priority 2 – Identification of a Funding Source for Police Officers Provided under COPS

The baseline financials shared earlier include identifying a funding source for extra police officers currently provided under the COPS grant. The cost of doing this is \$3.2 million a year. General Fund revenues are planned to be the funding source.

Priority 3 – Examination and Reduction of the Pension Plan Amortization Period

Like many public and private organizations, the City’s retirement obligations are a source of concern. As of FY 2008, the City’s unfunded liability was \$1.2 billion and is expected to be in the same range for FY 2009. At the start of FY10, we changed the amortization method of all three City defined benefit pension plans. This adjustment had the impact of saving over \$25 million a year of cost for the City’s General Fund and an additional \$17 million for all other funds. However, in the long term (30 years) this amortization adjustment will ultimately increase pension costs by \$800 million. We must begin to reduce the City’s unfunded liability balance and rethink our retirement programs, so periodic pension plan review is necessary.

Information from the City’s pension plan actuaries was provided and analyzed as a part of this effort. As detailed in the table below, switching to a 25 year amortization after FY12 would increase annual pension costs across all City funds by \$8.9 million in FY13 and by \$11.1 million in FY14. The projected General Fund impact is \$3.9 million and \$5.8 million respectively. This assumes a 7/1/2012 implementation across all three defined benefit plans.

Estimated Incremental Cost of a 25 Year Rolling Amortization Plan*					
Fiscal Year	2010	2011	2012	2013	2014
General Fund	NA	NA	NA	\$ 3,922,997	\$ 5,792,729
Solid Waste	NA	NA	NA	384,120	384,120
Department of Aviation	NA	NA	NA	1,081,255	1,420,323
Department of Watershed Management	NA	NA	NA	2,965,033	2,965,033
All Other Funds	NA	NA	NA	554,945	554,945
Total Estimated Incremental Cost to the City				8,908,350	11,117,150

*Estimates assume a 7/1/2012 implementation of the new amortization plan across all defined benefit pension plans

The City must take action to both reduce unfunded liabilities and manage the costs while keeping our overall compensation package competitive and providing for City retirees. A review is currently in process of the City’s pension plans.

Priority 4 – Identification of a Funding Source to Replace the City’s Fleet

Significant funds to replace the City’s aging fleet have not been available in recent years. This will begin to impact service delivery if not provided for. Over 55% of current fleet equipment is already past its lifecycle. The following table shows the need for fleet replacement over a four year time frame (an average of about \$10 million per year from FY11 to FY14). It includes the necessary investment to catch up on the City’s backlog for fleet replacement.

	Annual Capital Requirement				
	FY10	FY11	FY12	FY13	FY14
GENERAL FUND DEPARTMENTS					
OFFICE OF THE MAYOR & ENTERPRISE ASSET MANAGEMENT	-	209,764	250,416	241,351	468,152
DEPARTMENT OF INFORMATION TECHNOLOGY	-	15,968	16,447	16,940	74,859
DEPARTMENT OF CORRECTIONS	-	310,263	255,785	263,458	303,076
DEPARTMENT OF FINANCE - RISK MANAGEMENT	-	-	-	-	17,481
DPW - TRAFFIC/TRANSPORTATION/FLEET	-	5,338,910	4,794,835	4,689,327	5,471,145
DEPARTMENT OF PARKS & RECREATION	-	2,025,848	2,169,825	2,326,563	4,243,650
OFFICE OF COURTS & SOLICITORS	-	23,329	24,028	24,749	79,508
FIRE DEPARTMENT	-	8,591,776	3,594,488	3,308,187	4,218,309
POLICE DEPARTMENT	-	10,694,911	5,291,882	8,291,096	9,836,752
DEPARTMENT OF PLANNING & COMMUNITY DEVELOPMENT	-	22,705	1,389,738	507,108	41,820
FY2011-2014 - GENERAL FUND	-	\$27,233,474	\$17,787,444	\$19,668,779	\$24,754,752
ASSUMES 4 YR @ 5% LOAN/LEASE PAYMENTS	-	\$7,314,440	\$12,091,840	\$17,374,533	\$24,023,231
PUBLIC WORKS - SOLID WASTE DEPARTMENT	-	5,673,238	7,135,358	11,901,497	7,660,593
FY2011-2014 - SOLID WASTE FUND	-	\$5,673,238	\$7,135,358	\$11,901,497	\$7,660,593
ASSUMES 5 YR @ 5% LOAN/LEASE PAYMENTS	-	\$1,247,976	\$2,817,584	\$5,435,627	\$7,120,774

Funding the fleet need for General Fund assumes a revolving 4 year loan at 5% interest. Funding the fleet need for the Solid Waste Fund assumes a revolving 5 year loan at 5% interest. There are other financing options that could be utilized to address the entire need.

Priority 5 – Reinstatement of Cost of Living Increases

Retaining good employees long-term is critical to smooth City operations. The current position and salary structures do not fully support this goal.

City employees have not had any cost of living adjustments in FY09 – FY10. This means that the City pay rates have not included any adjustments for inflation. The City needs to reward superior individual performance. Most organizations do this by instituting a variable pay component that is based on annual results.

As part of this plan, analysis was conducted on the cost of implementing a 2.5% cost of living adjustment or performance based pay system starting in FY11. This amount is not currently in the baseline financial projections. At 2.5% of current salaries, the cost is just

over \$7 million per year. This includes the incremental impact that salary changes will have on City benefits such as pension.

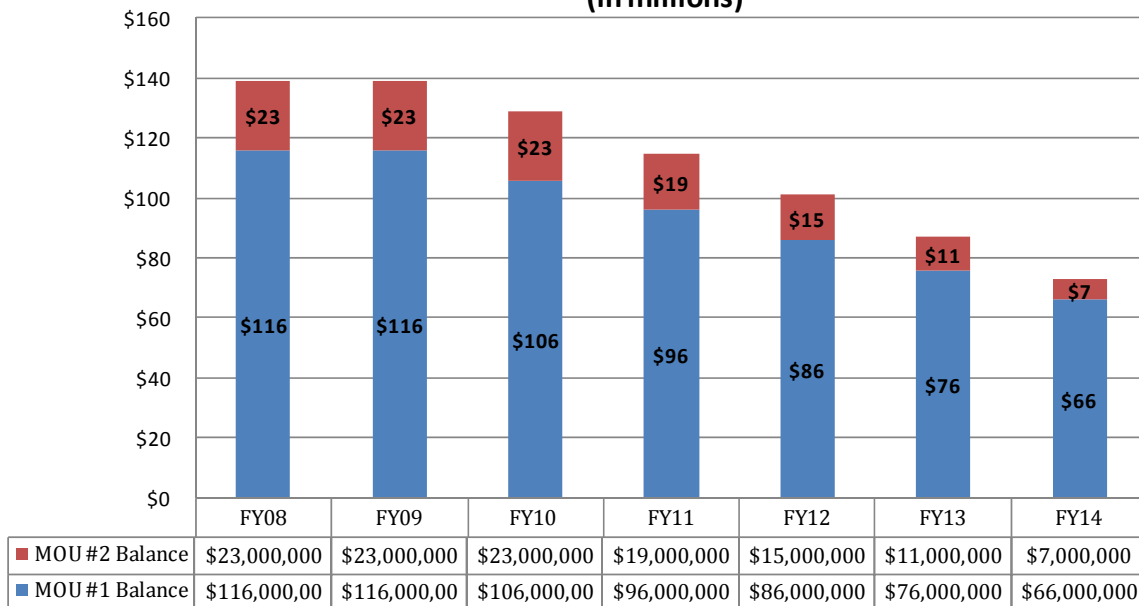
The City also needs to become an employer of choice. By investing in personnel development, job rotation, and cultivating future leaders internally, a culture of continuous improvement and learning can be fostered.

Priority 6 – Identification of a Funding Source to Repay City Obligations

The baseline financials shared earlier include identifying a funding source for the extra police officers currently provided through the federal JAG grant. These officers are maintained through general fund revenues. The incremental cost of this is \$1.8 million a year.

While not federal or state in nature, another key City obligation is to repay the Department of Watershed Management (DWM) \$116 million for cash borrowing through FY08, and \$23 million for unpaid water and other bills. These memoranda of understanding were established in FY08 to govern repayment. Significant progress in paying off this general fund liability is part of the baseline financial plan. In FY10, \$10 million will be paid from the General Fund to DWM plus interest on the outstanding balance. Below is a summary of the outstanding liability projected by fiscal year.

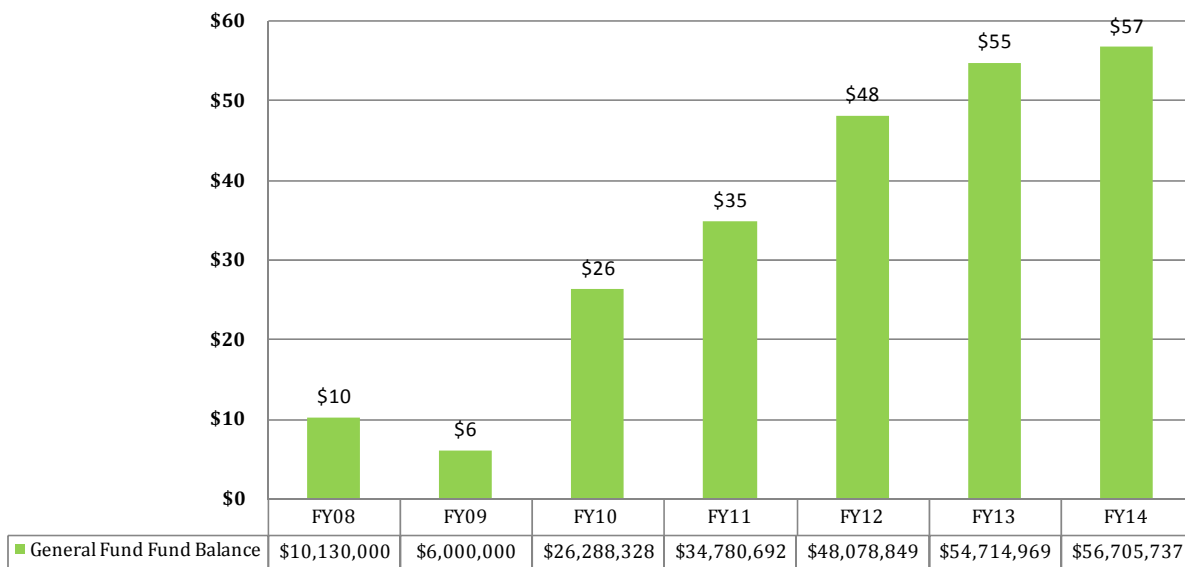
**Watershed Memoranda of Understanding Obligations
(in millions)**



Priority 7 – Establishment of a General Fund Balance of \$100 Million

The baseline financials include making significant progress on establishing a general fund balance of \$100M. As shown below, under the baseline, current services model, the general fund balance will grow to \$57 million. The net cost or savings necessary to grow it to \$100M is \$43 million. Note that this amount is after a mandatory transfer of 25% to the Capital Finance Fund per City code.

**General Fund Fund Balance Projections
(in millions)**



Priority 8- Establishment of Future Bond Issues to Fund Long-Term Infrastructure

As with virtually every other major U.S. city, Atlanta has significant infrastructure requirements with very limited funding options. The City’s infrastructure needs include roads, bridges, sidewalks, traffic signals and facilities. The State of the City’s Infrastructure report dated December 2008 identified \$3.1 billion of infrastructure requirements over the next 25 years, of which about \$700 million represents a backlog.

The City’s ongoing review of its infrastructure requirements has resulted in long-term bond financing as the optimum tool. The issuance of long-term debt allows the City to match the useful life of the asset over the amortization period of the debt. The issuance of General Obligation debt is an attractive financing tool because it is backed by the full faith, credit, and ad valorem taxing powers of the City.

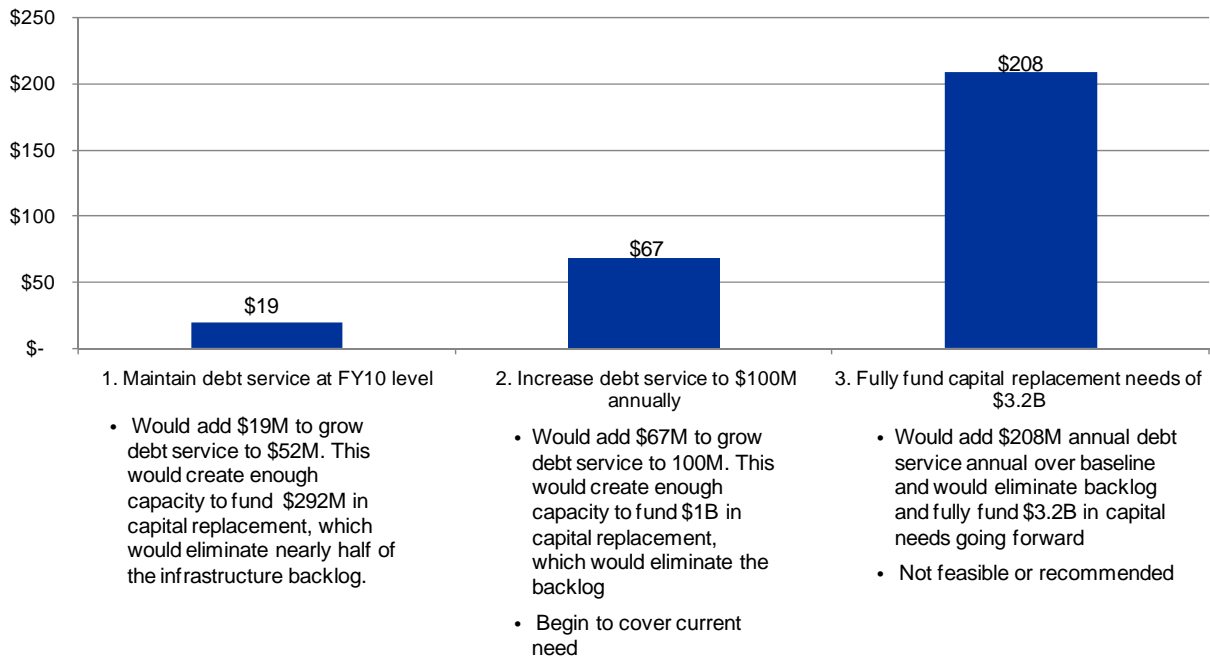
General Obligation debt backed by City ad valorem taxes allows the City to achieve a favorable interest rate given the City's substantial tax base. The City has issued General Obligation bonds pursuant to referenda approved by the voters to address its most recent long-term capital needs. The credit markets and bondholders are familiar with this financing tool and its reliable track record to repay long-term debt.

Many U.S. cities seek successive bond referendum in regular yearly increments; this allows the debt burden to be spread over a more manageable period of time. This also ensures flat debt service levels without any significant rises in payments; the City would essentially issue new debt as old debt is retired, which allows the tax rate supporting the debt service to remain at reasonable levels.

The City is currently prioritizing its capital requirements and the necessary bond sizing options. The critical path to addressing these needs will require input and voter approval by Atlanta citizens, who are the ultimate beneficiaries of an improved City infrastructure.

The City could request voters to approve multiple bond issues every five years for the next 25 years, and set a maximum property tax rate to finance the debt service payments. This approach would allow the City flexibility to work with its bond financing team and monitor the credit markets in order to obtain the lowest possible interest rates available. The following chart shows three possible scenarios for funding the City's infrastructure needs.

Annual Debt Service Requirement Under Three Infrastructure Replacement Scenarios
(\$ in millions)



NOTE: Level of debt service are subject to bond market conditions
Assumes 30 year, 5% interest, level debt service

Planning Scenarios

Policy decision makers in the next five years may consider enhancements to service levels. The scenarios identified below have been discussed in recent years and are included in the report for information only.

Reopen the Closed Recreation Centers

Over the course of the last year and a half, financial constraints have caused the City to close 16 recreation centers and pools. Currently, 17 centers and pools are open (6 of which are funded through public/private partnerships). Reopening the closed facilities would cost approximately \$5.3 million per year.

The open facilities are now working to service the needs of citizens on a regional basis. This is an evolving leading practice in cities of Atlanta’s size. Where implemented successfully, the results are often better maintained facilities with well-planned citizen

transportation. Based on this, it is recommended that further review is completed to determine which facilities are most essential to reopen, if any. These facilities should have a clear need and be financially sustainable long-term. Also, rather than reopening closed facilities, an alternative is to increase investment in the current facilities to serve the region.

100 Additional Sworn Police Positions

Continuing to improve public safety is a key imperative for the City. The cost of adding 100 officers to the Atlanta Police Department is approximately \$100,000 per officer or \$10 million per year. This includes salaries, benefits, training, and equipment.

Enhance Code Enforcement

Adding code enforcement personnel helps the City take action on property violations. The cost of twenty-five additional personnel is approximately \$2 million per year. This includes salaries, benefits, training, and equipment.

Eliminate Fire Station Brownouts

Fire stations are currently funded for the positions identified in the FY10 Budget. In the five year baseline plan, the staffing levels remain the same. However, due to turnover of staff, retirements, planned and unplanned leave there may times when the staffing is not sufficient to staff engines and/or fire stations. The only way to eliminate the brownouts is to hire additional personnel or fund overtime to provide additional coverage to handle these unforeseen staffing shortages. The cost to eliminate all fire station brownouts is approximately \$3.1 million per year. In order to attain 4 person staffing per engine/truck, the City would need to add 70 positions at a cost of approximately \$4.9 million per year.

Enhance Department of Public Works

The Department has significantly reduced staff resources to repair sidewalks, streets, potholes and to perform right of way maintenance. This has increased the backlog of work orders and will impact the condition of infrastructure over time. To increase the turnaround on work orders and improve preventative maintenance activities it will cost approximately \$3 million - \$4 million a year.

Replace Technology Infrastructure

The City's technology infrastructure creates the backbone for service delivery. It includes the systems that support crime enforcement, payment processing, financial tracking and on-line services. The City needs to build redundancy in its aging systems and does not have adequate disaster recovery capabilities to protect its key systems. This could jeopardize citywide service delivery. This is an area that will require further study and quantification.

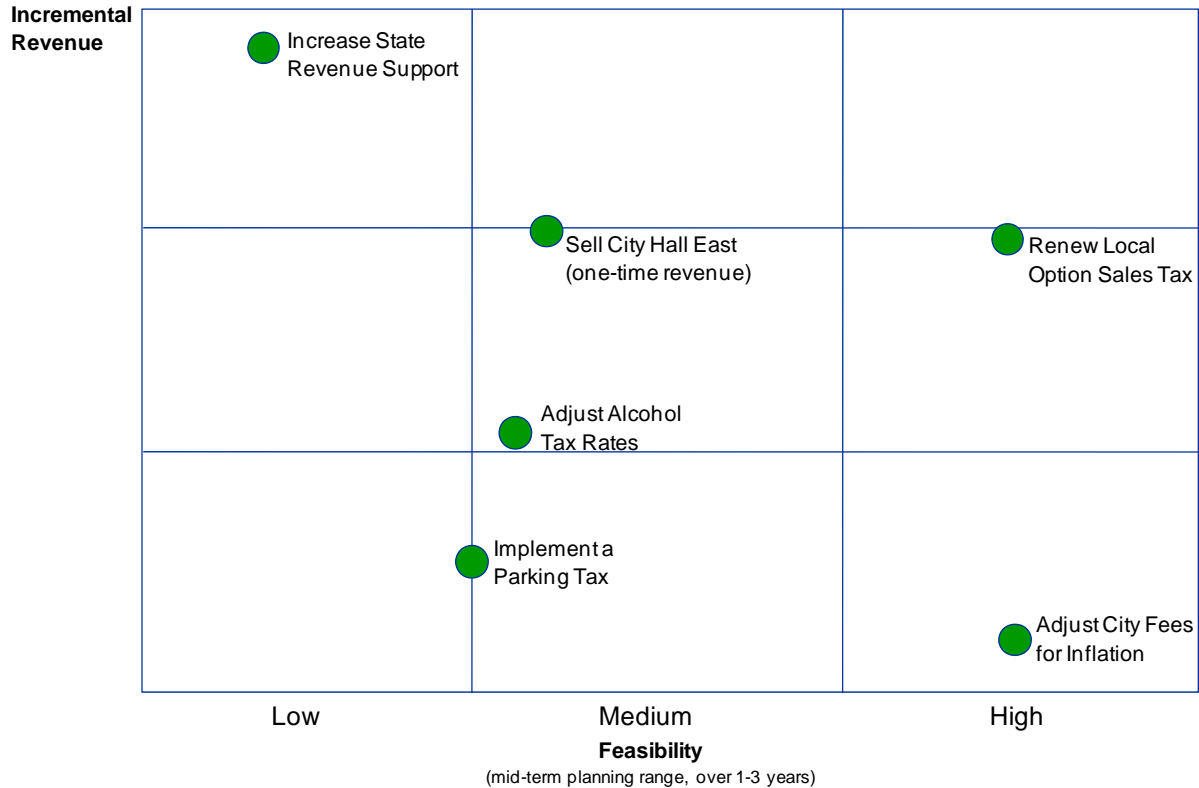
Revenue Initiatives

The five year plan legislation requires a discussion of specific revenue initiatives that could be pursued.

Overview

The City of Atlanta has experienced a 25% population growth over the past decade, however its revenues adjusted for inflation remain flat. City revenues must increase to meet its public service demands and strengthen its financial position. The City's service delivery requirements within the Atlanta Metropolitan Statistical Area (MSA) are consistent for a major American urban city, yet the revenue options are not commensurate to address these needs.

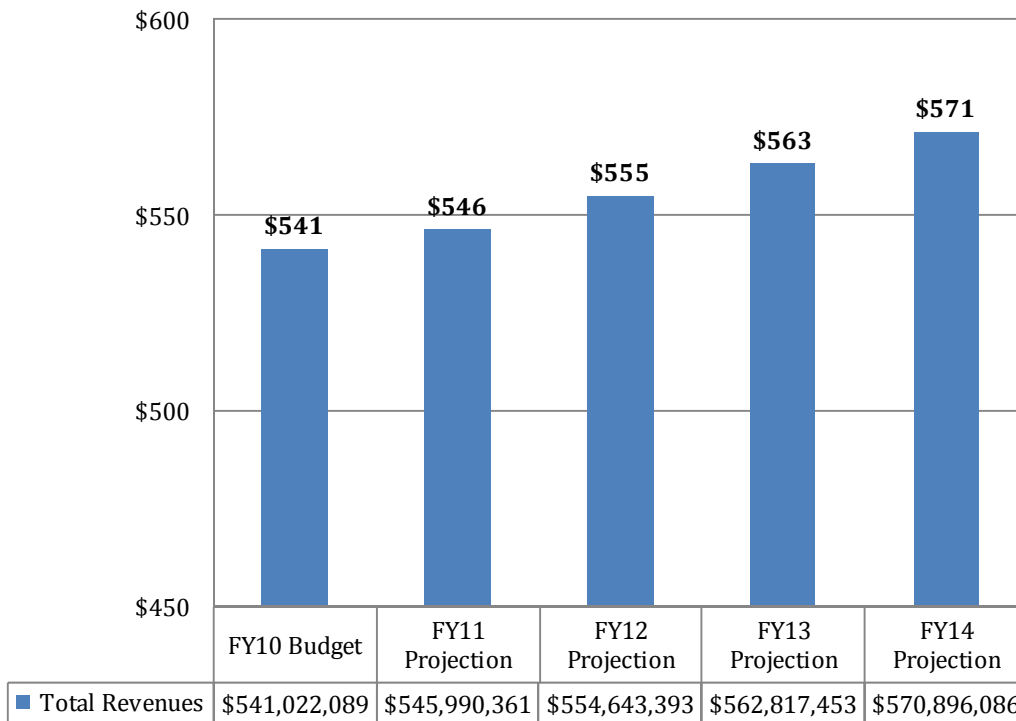
There are a number of proactive revenue initiatives that should be considered and pursued. Potential initiatives are included in the following chart and directionally plotted in terms of incremental revenue and feasibility.



The City has a limited number of potential revenue growth initiatives. Due to the City's dependence on state legislative action, the further challenge is that most are not easy to implement.

In the following sections, each potential revenue initiative is summarized in terms of its purpose, potential financial impact, actions necessary to implement, and key risks.

General Fund Revenue Projections (in millions)



Increase State Revenue Support

Revenue Initiative

Based on data from the U.S. Census and Bain & Company, the average State revenue support for major U.S. cities is 15%. However, the City of Atlanta received less than 1% to support its General Fund operations in FY09.

This initiative would request that the State increase its inter-governmental support. The City of Atlanta status as the capital of the State of Georgia and its strategic location in the Southeast quadrant of the United States has proven to be a catalyst for regional economic

growth. This growth has resulted in increased operating and capital requirements for Atlanta, which in many other U.S. cities are supported by increased inter-governmental support.

Purpose

This initiative seeks to increase the City's share of inter-governmental support to ensure that Atlanta remains a significant source for regional growth. The City is requesting that its revenue options be broadened to include state support similar to other U.S. cities throughout the nation.

Fiscal Impact

This initiative could generate much needed funding to support the City's core service requirements. An additional 10% in State support would equate to \$54 million based on the FY10 budget.

Action Steps

The City's legislative package should include an item requesting additional state support.

Risks

Due to the recession, the State's economic forecast shows declining revenues and therefore may be unlikely to increase support.

Renew Local Option Sales Tax (LOST)

Revenue Initiative

The authorization of the 1% Municipal Option Sales and Use Tax (MOST) on October 1, 2004 has identified the inequities of the City's General Fund Local Option Sales and Use Tax (LOST). The current LOST allocation directly correlates with the City's population relative to the other jurisdictions population within Fulton County. Renewing LOST based on the City's increased population will result in the City deriving a more equitable LOST share.

The MOST allocation is derived from sales tax activity where the customer takes delivery of the item being sold or an item is used within the incorporated city limits. MOST revenue has consistently exceeded LOST revenue by as much as \$25 million. This indicates that the City of Atlanta is the retail center within Fulton County and is not receiving its proportionate share of the taxable retail sales within the City's corporate limits.

Purpose

The purpose of this initiative is to achieve equitable distribution of LOST. The MOST revenue and the City's current population trend provides compelling evidence of the disparity in the current LOST allocation as it pertains to the City of Atlanta's share.

Fiscal Impact

This initiative would result in up to \$18-\$20 million in additional LOST revenue based on the City's current population basis. LOST projections based on a MOST or point of use and delivery methodology would be \$4-\$7 million higher than the population methodology.

Action Steps

The State law stipulates the timeframe for renegotiating a new sales tax certificate is no later than December 30 of the second year following the year in which the census is conducted. In accordance with the law, Fulton County is responsible for commencing renegotiations on or before July 1 2012; i.e., the second year after the census is conducted.

If the county does not call the meeting by July 1, then any municipality can call the meeting and notify the Georgia Revenue Commissioner. "If the parties fail to reach an agreement within 60 days, then the parties must submit the dispute to nonbinding arbitration, mediation or such other means of resolving the dispute. If the parties fail to reach an agreement within 60 days of nonbinding arbitration or mediation, then any party may file a petition in Superior Court. Such petition may be assigned to a judge pursuant Code Section 15-1-9.1 or 15-6-13 who is not a judge in the circuit in which the county is located. The judge selected may also be a senior judge pursuant to Code Section 15-1-9.2 who resides in another circuit."

Another alternative is to include an amendment to the State law that would add as criteria for sales tax allocation, the actual sales tax activity generated within the corporate limits. Specifically, this would include transactions where the customer takes delivery of the item being sold or an item is used within the incorporated city limits.

Risks

The provision that invalidates sales tax collection if the dispute between jurisdictions has not been resolved has been deleted from State law. The Georgia Revenue Commissioner would now distribute sales tax collection based on the existing certificate or in accordance with subsection (f) of Code Section 48-8-89-1 if parties do not agree on a renegotiated certificate by the stipulated time.

Adjust City Fees for Inflation

Revenue Initiative

This initiative would introduce City legislation that assesses an annual consumer price index (CPI) on City's fees in order to recover the direct costs incurred by providing specific service delivery.

Purpose

A number of City fees currently do not cover operating costs. The CPI rate is intended to ensure that fees are annually adjusted for inflation and provide breakeven performance.

Fiscal Impact

This initiative could add incremental revenue of \$100,000-\$1 million on an annual basis to the General Fund. The low end of this range assumes business licenses are not included in the periodic adjustments. The high end of this range assumes business licenses are subject to periodic adjustments for inflation.

Action Steps

The key action steps to implement this initiative are the preparation of departmental cost recovery justifications and City Council approval.

Risks

Key risks or challenges of this initiative may include limited City Council and citizen support. This initiative requires Council approval for implementation. To mitigate these risks, it is suggested that departments compile current list of City fees and prepare cost recovery analyses and justifications for finance and legal review.

Adjust Alcohol Taxes

Revenue Initiative

This initiative is comprised of three legislative requests: Wholesale Alcohol Tax, Alcohol Tax-By-the-Drink, Beer and Wine By-the-Drink Tax. The following proposed increases would assist in defraying the increasing public service delivery requirements.

Increase in the Wholesale Alcohol Excise Tax

This proposal would amend the City Charter via General Assembly approval and would give the City the authority to impose an excise tax on the sale of distilled spirits by the package, at the wholesale level. The current rate of \$0.22 per liter of distilled spirits, excluding fortified wines; the proposed rate is \$0.33 per liter of distilled spirits, excluding fortified

wines. This excise tax currently generates \$10 million in tax revenues. A \$0.11 per liter increase would result in an additional \$5 million in tax revenues.

Alcohol Tax-by-the-Drink Excise Tax

This proposal would amend the City Charter via General Assembly approval and would give the City the authority to increase the existing alcohol excise tax-by-the-drink from 3% to 5% of the purchase price. A 5% excise tax would result in an estimated \$8 million in revenues based on estimated gross receipts of \$160 million. The net increase would be \$3.2 million.

Beer and Wine Tax-by-the-Drink Excise Tax

This proposes an amendment to the City Charter by which the General Assembly would give the City the authority to impose an excise tax by-the-drink on beer and wine at three percent (3%) of the purchase price. The City currently has a 3% tax-by-the-drink excise tax on mixed drinks. This proposed excise tax is estimated to generate \$2.5 million dollars annually.

Fiscal Impact

This initiative could generate \$10 million in additional revenue to support the City's General Fund.

Action Steps

To implement this initiative will require approval by the Georgia General Assembly. Upon approval, an ordinance would be enacted by the City.

Risks

Key risks or challenges are limited support by the Atlanta/Fulton delegation and ultimate approval by the State legislature.

Implement a Parking Tax

Revenue Initiative

A number of major U.S. cities have enacted legislation to impose a parking tax within their corporate limits. The Atlanta City Council passed resolution 02-R-0256, establishing a Parking Surcharge Study Committee which purpose was to explore the feasibility of a surcharge on parking receipts in the City of Atlanta. Resolution 02-R-0256 passed in February 2002 that required the taskforce to prepare a report to the Finance/Executive Committee no later than July 1, 2002. The taskforce prepared a report that recommended a parking tax based on gross receipts. The proposed tax would be in the form of an excise tax on "commercial area, space, garage, parking structure or other facility upon or in which

motor vehicles are parked, stored or housed.” This proposal takes the correct approach in seeking authority from the General Assembly in order to seek an additional source of revenue to assist in defraying transportation related operating costs currently funded by scarce General Fund revenues. Whether stated as a “surcharge” or directly identified as an “excise tax,” additional charges levied on the right to park in the City that are for general revenue purposes would require authorization from the General Assembly.

Purpose

The imposition of an Atlanta parking tax would meet an important public purpose in mitigating the transportation and environmental costs borne by the City to provide service delivery to both residents and non-residents. The City has made several important transportation policy initiatives that include increasing the number of metered parking within its primary business districts. Parking meter revenue however is not sufficient enough to defray the transportation related costs incurred by a high concentration of vehicular traffic.

A parking tax would assist in offsetting the City’s transportation requirements attributable to the influx of vehicular traffic at City venues and attractions. Atlanta motorists and visitors are drawn to the City’s substantial eating and drinking places, sporting venues and high quality retailers. This mix of attractions also contributes to increased traffic and congestion and ultimately road and street maintenance costs incurred and funded through a limited amount of General Fund revenues.

Fiscal Impact

This tax surcharge would be imposed at the rate of 10% of the gross revenue of commercial parking facilities within the City limits. The tax is estimated to generate \$4.2 million.

Action Steps

To implement this initiative will require approval by the Georgia General Assembly. Upon approval, an ordinance would be enacted by the City.

Risks

Key risks or challenges are limited support by the Atlanta/Fulton delegation and ultimate approval by the State legislature.

Sale of City Hall East

Revenue Initiative

The City reviews its building, land, and structures and makes recommendations as to sale, financing, and/or purchases based on real estate market conditions. The City recently

constructed a new Public Safety headquarters that will be the permanent office space for its public safety personnel. These City personnel were previously located at City Hall East. As a result, the sale of City Hall East has been identified as an opportunity for the City to dispose of a currently underutilized asset.

Purpose

The sale of City Hall East would provide a one-time cash infusion to the City.

Fiscal Impact

The additional cash from this transaction is to be determined.

Action Steps

Assess options subject to legal and real estate market conditions.

Risks

Key risks or challenges are current real estate market conditions.

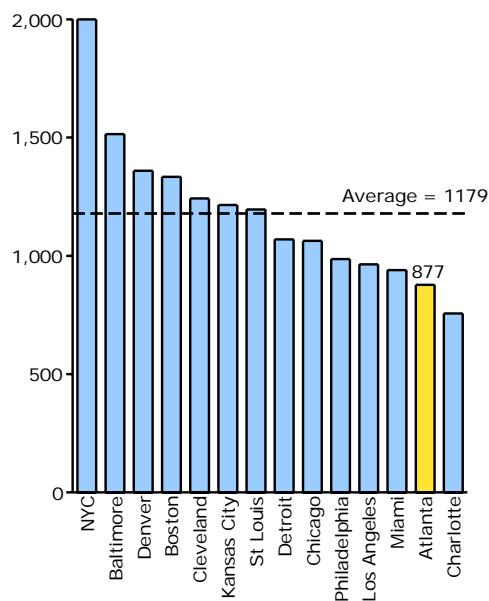
Cost Saving Initiatives

Major Initiatives

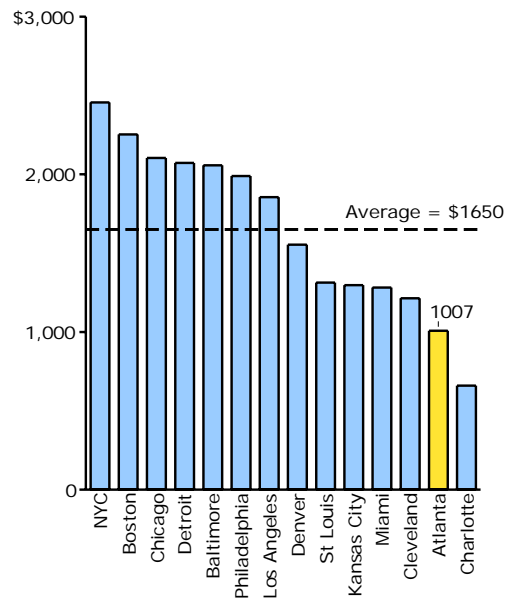
The City has been very active in bringing costs in line with projected revenues. Since 2001, the City has reduced its workforce from 5,617 to 3,934 (a 30% decline). In addition there has been permanent non-personnel reductions totaling \$12 million.

The question remains, can costs be cut further within the City? Facts show that the City is likely reaching the threshold where further significant cost cutting severely impacts service delivery. Peer City benchmarking conducted by Bain & Company shows that the City has moved from the last quartile of efficiency (least efficient) to the first quartile (most efficient) over the past eight years. Among Atlanta's peer cities, this external data indicates that Atlanta is a leader in efficiency.

2009 general fund employees per 100k residents



2009 general fund spend per resident



Source: Bain analysis, respective cities FY2009 budgets, US Census Bureau, Office of the CFO

Significant further cost reduction will likely need to come from the sale of key City assets and additional outsourcing. Key City assets that could feasibly be sold in the next five years include the Jail and City Hall East. Unfortunately, many other City assets have restrictive leases and other covenants that should be fully analyzed before taking action. The City is currently reviewing options that will forego its operation of the Jail to another provider. This will allow the City to manage its budget on a cost per bed basis.

There are several current services that could be considered for outsourcing. Services such as Solid Waste, Fleet Services, and other administrative functions should continue to be reviewed for opportunities to outsource these activities. There should be an updated in depth study conducted by a qualified third party to determine the viability/feasibility and value of each service in an outsourcing strategy. Outsourcing of City services should be considered only with a realistic expectation and supported by a clear long term cost benefit analysis. The fact is that many City operations have been cut to a level where outside providers may not realize the profit margin that is typically associated with outsourcing. Otherwise, the City runs the risk that a provider may agree to outsourcing at a lower cost that may increase significantly over time.

Other Funds Impacting the General Fund

As of the FY08 CAFR, the City has four funds that are operating in a deficit position; E911, Underground, Solid Waste, and Capital Finance. The legislation driving this five year plan has included as an objective that each of these funds are addressed. Specifically, the legislation states the need to “eliminate any deficits in funds supported by the General Fund”.

Listed below is a description of each fund with their respective FY08 fund balance and possible solutions to reduce or eliminate their negative balances.

E911 - Emergency Telephone System Special Revenue Fund

The Emergency Telephone System Fund consists of collections of an Enhanced 911 fee levied against telephone subsidies beginning in 1991. Until 1993, the collections of these fees were accounted for in the General Fund in Revenue from Charges for Services category. The current rate structure mandated by the Georgia General Assembly does not adequately cover the costs of operating this function. Revenue has never been sufficient to cover operating expenses. The General Fund has annually subsidized between 27%-42% of the cost of operations. As of the close of FY08 (CAFR) the fund balance is (\$33.5) million.

One possible solution to this fund’s deficit would be to request a rate increase from the General Assembly sufficient enough to cover costs.

Underground Atlanta Enterprise Fund

The Underground Atlanta Facilities Revenue Fund was established in 1989 to account for transactions associated with the public operations of the Underground Atlanta facilities and the parking decks. The Fund is supported by user fees, parking revenues and a General Fund subsidy. Revenues from Underground have not been sufficient to cover operating expenses. As of the close of FY08 (CAFR) the fund balance is (\$13.3) million.

The City has a master lease agreement with the tenant to lease the structure until 2086. A possible solution would be to pursue an increase in fund revenues through gaming.

Solid Waste Enterprise Fund

Solid Waste Collection Fund consists of collections of fees for: garbage, recycling, yard waste and bulk rubbish, street sweeping, de-littering, debris removal, right-of-way-cutting, dead animal removal, education and enforcement. It also includes land post-closure management and responding to city-wide emergency operations. This fund is beginning to cover its operating cost, however it is not sufficient to cover its capital needs. Also, the billing for services is 8-9 months in arrears that causes an additional cash flow problem to the negative fund balance. As of the close of FY08 (CAFR) the fund balance is a negative \$54.6 million.

Three possible solutions would be to include solid waste as a line item on the Fulton County property tax bill, increase rates, or examine the viability of this function being outsourced. Any rate increase would have to be sufficient enough to cover the cost of vehicles as well as the interest expense from borrowing to cover the delayed cash flow issues.

Capital Finance Fund

Capital Finance Fund was established to centralize all governmental capital purchases. An example of capital purchases would include vehicles for Public Safety, Public Works, and Parks & Recreation, and funding of the City's ERP solution. As of the close of FY 2008 (CAFR) the fund balance is (\$46.2) million.

This fund deficit will be decreased through the legislatively mandated 25% contribution/transfer from the remaining General Fund annual operating reserves.

Civic Center Fund

The Civic Center will require capital investments starting in FY11 between \$1.6 million. In FY11 – FY14 the projected revenues will not cover the operating and capital expenses.

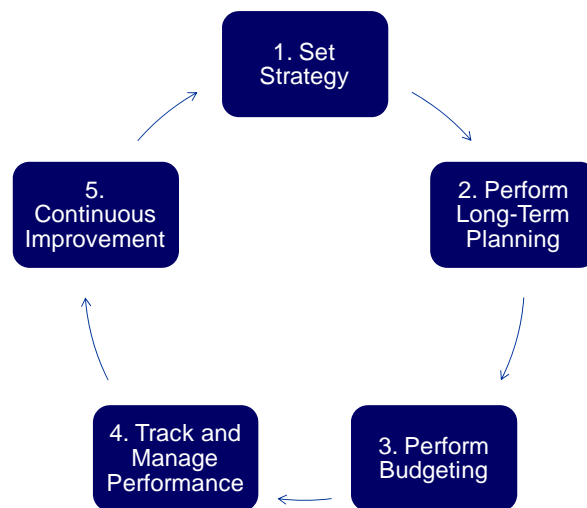
Ongoing Planning Process

Process Overview

This financial stabilization plan is to become part of a broader, ongoing performance management process for the City. A leading practice in public and private organizations is to define and integrate the processes of long-term strategic planning, financial planning, annual budgeting, reporting, and forecasting. The City is building a foundation for each of these processes then will seek to further integrate and optimize them.

Strategically, the City's performance management process starts with setting the City's strategy. This involves determining long-term priorities and goals. Second, long-term planning is conducted. This focuses on defining the strategy execution approach and modeling the associated financial impact. This five year plan is an initial foundation that covers these first two phases.

The next three phases take the strategy and define/review the tactical execution. Budgeting involves making short to mid-term decisions about targets and how to allocate resources. After this is complete, performance must be reviewed and continually improved on a daily/monthly basis. The City currently uses a combination of daily and monthly performance reports as well as its balanced scorecard initiative, ATL Stat, to perform phases four and five.



Metrics to Monitor

Key performance metrics should be established and tracked to provide a clear, ongoing focus on financial stabilization. Initial metrics that should be reviewed include the following.

Category/Metric

1. Efficient and Effective Government

- 1.1 Employees per 100K Residents
- 1.2 Expenses per Resident

2. Financially Stable

2.1 Overall

- Credit Rating
 - Moodys Rating
 - Moodys Outlook
 - S&P Rating
 - S&P Outlook
- Population Growth Rate (Year over Year)
- Balanced Budget (without use of reserves)

2.2 Revenues

- Revenues
 - Inflation Adjusted Revenues
 - Revenue Growth Rate
 - Revenue Collection Rate
- Grant Fund Growth Rate
- Trust Fund Growth Rate

2.3 Expenses

- Actual YTD Expense as a Percent of Budget
- Percent of Fringe Benefits of Salaries/Wages
- Total Non-Departmental / Fixed Costs
- Non-Departmental / Fixed Cost Growth Rate

Annual Pension Costs (ARC)

2.4 Balance Sheet/Cash Flow

- Fund Balances
 - General Fund
 - E911
 - Underground
 - Solid Waste
 - Capital Finance
- Pension Funding Level
 - General Employees
 - Police
 - Fire
- Cash Flow Trends
- Debt as a Percent of Revenue
- Direct Net Long-Term Debt per Capita

Responsibilities/Timing

The ongoing performance management process needs to be joint collaboration by the Mayor's Office and the Department of Finance. Specifically, the Mayor, COO, CFO, and Budget Chief can continue to improve this process. Council provides input on priorities and needs throughout the process. Also, each of the City Commissioners also play a key role in each phase by providing input on City priorities, resource needs, and tracking/improving performance. In this manner, fiscal accountability and financial improvement becomes the job of all City employees.

Recommendations and Next Steps

Recommendations

Financial stabilization will require finalizing the right portfolio of revenue growth, expense reduction, and City service initiatives. Key recommendations are to:

1. Continue to thoroughly plan for City costs and revenues to avoid surprises. Conduct cost benefit analysis on new initiatives or projects prior to making commitments.
2. Continue to question every dollar of expense as to its benefit.
3. Accumulate restricted reserves to build a strong general fund and correct other fund deficit positions.
4. Capture property tax growth by not rolling back the millage rate. Take action on new revenue opportunities. The City must become a healthy growing entity.
5. Pursue revenue expansion at the state and federal level. Currently, the City's General Fund receives less than 1% in state support. However, the average support to cities across all U.S. States is 15% (2006 U.S. Census Bureau Annual Survey of Governments, Bain & Company). In addition, many revenue rates are governed by the State of Georgia, which effectively limits the City's ability to increase revenues. Recent legislation has further constrained the City, i.e., SB 233 freeze on tax reassessments until FY 2013. In order to provide key services, revenues must be structured to keep pace with population growth and inflation.
6. Invest in the City's employees. To recruit and retain talented employees, the City must have competitive pay, professional development, and a structure that rewards results.
7. Continue to review and improve the City's focus. Significant time and resources are spent on paper-intensive, transaction processing. More time and effort should be committed to automation, higher value work, and improving service delivery.

As is common with long-term planning efforts in public and private industry, the resulting forecast should be viewed as directional in nature. We received input from external and City subject matter experts to develop the financial projections included. For example, we worked with the lead economist from the University of Georgia to develop realistic revenue assumptions and forecasts.

Next Steps

The immediate next steps are two-fold. First, this plan should receive healthy review. It should be a living document rather than one that is simply adopted at a point in time.

Second, the City should work to institutionalize this multi-year planning effort and take action to further integrate and improve it. This plan is a starting point to review the long-term financial impact of ongoing service/policy decisions that are material. It should be a living document that is periodically updated to promote more informed decision making. This document and the overall planning process should promote a focus on the long-term health of the City, allowing the City to better predict financial challenges and persevere through the unexpected.